

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Home Ownership Committee

Adjustment to the Discount Rate and Quota Allocation of Home Ownership Scheme Flats

PURPOSE

To seek Members' endorsement to provide increased flexibility on the discount rates and quota allocation of the Home Ownership Scheme (HOS).

PRESENT POSITION

Discount Rate

2. Under present policies, the sale price of HOS flats is determined with reference to affordability. This has served effectively to smooth out market fluctuations and to ensure that prices are pitched at a level commensurate with the repayment ability of potential buyers. Each phase of the sale programme will reflect a discount from assessed market value based on transactions recorded in comparable private sector developments adjusted by location, design, layout and standard of finishing.

3. The guideline on discount, as endorsed by Members in July 1991, is 30% to market value. However, the discount rate applied in each phase of HOS will be subject to fine-tuning in line with prevailing market conditions. The discount rate for the most recent sale exercise, Phase 19B, was 50%.

Quota Allocation

4. In order to speed up the turnover of public rental flats, Members approved in June 1996 vide HOC Paper No. 55/96 a quota allocation of 80:20 between Green Form (GF) and White Form (WF) applicants with effect from

Phase 18B, subject to review in two years. A flat selection ratio of 3:1 between GF and WF applicants has also been adopted to ensure an equitable sharing of the more popular units.

RECENT DEVELOPMENTS

5. Members may recall that a flexible range of discount rates were offered under the Tenants Purchase Scheme (TPS) launched in January 1998 to enhance its affordability and attractiveness. It is also clear from the reaction to the first phase that some GF applicants, especially those residing in the target estates (i.e. Trident blocks built between 1985 and 1992), will prefer to opt for this Scheme than for HOS.

6. These recent developments call for corresponding changes in our policies to improve their resilience and responsiveness to market conditions and buyer sentiments. We intend to achieve this through two specific means.

RECOMMENDATION

Discount Rates

7. The practice of fixing a single discount rate for each phase of the sale programme offers the advantage of administrative simplicity and certainty in budgetary planning. But this limits the scope of choice for potential buyers in accordance with their affordability. In line with the approach adopted for TPS, we recommend to introduce a flexible discount rate system for all new and resale flats to be sold under HOS. Under this arrangement, a basic discount rate will be set for each phase of the sale programme, while all GF and WF applicants can opt for two other levels of discounts varying from 10% above to 10% below the base rate.

8. With a base rate of 50%, the sale price for a new Concord unit with Saleable Area of 47 m² in the extended urban area will range from \$1,620,000 at 40% discount to \$1,080,000 at 60% discount. An analysis of sale prices and affordability is at **Annex I**.

Quota Allocation

9. As illustrated by the historical data at **Annex II**, there remains an unsatisfied demand from WF applicants, as reflected by their over-subscription and flat purchase rates. With the increased HOS production and high-standard block designs (e.g. Concord) coming on stream, we propose to provide greater flexibility by allowing an independent quota allocation ratio to be fixed for each phase of the sale programme. Despite this change, transfer blocks will continue to be sold with priority to GF applicants.

10. Against this background, experience shows that the purchase rate of GF applicants has not been influenced heavily by quota allocation. However, experience shows that GF applicants tend to drop out once the more popular units have been sold. In order to encourage more GF applicants to opt for HOS we therefore propose to accord them a higher priority in flat selection from the ratio of 3:1 at present to 5:1.

Retrospective Effect

11. There are likely to be requests for the flexible discount rate system to be applied retrospectively to HOS and Private Sector Participation Scheme (PSPS) flats already sold but the assignments of which have not been executed. We do not support this course of action given that -

- (a) affordability has all along been the main factor in determining the sale price of HOS flats. The HOS/PSPS buyers of previous phases are thus unlikely to encounter repayment difficulties;
- (b) the banks should be willing to adjust the mortgage period and repayment terms in response to the changing personal circumstances of their customers;
- (c) while the level of sale price and deposit can be varied by executing a supplemental agreement, PSPS developers are not legally bound to comply with such an arrangement. The lead time for processing and formalities could also lead to delays on the sale programme and incur additional costs for PSPS purchasers;

- (d) it will set a precedent whereby contractual obligations entered into between buyers and developers are drifted by changing economic factors and market conditions;
- (e) since some 26,500 buyers are eligible for retrospective coverage, the potentially large volume of requests will create administrative difficulties; and
- (f) it will result in an impact on the financial position of the Housing Authority (HA).

FINANCIAL IMPLICATIONS

12. The flexible discount rate system could reduce the sale proceeds accruable to HA but it will be partly offset by additional alienation payment upon resale. The full impact cannot be accurately assessed at this stage without experience of the actual pattern of choice between different discount rates.

PUBLIC REACTION

13. The flexible discount rates should be welcomed as a positive step to enhance the affordability of potential buyers and to stimulate the demand for HOS flats. The new arrangements of quota allocation should also be viewed as a balanced package which provides GF applicants with higher priority in flat selection, while preserving the interest of WF applicants by enhancing their prospect of making a successful purchase.

DECISION

14. At the meeting of the Home Ownership Committee to be held on 12 February 1998, Members will be asked to approve the following changes, subject to review after a period of 12 months -

- (a) to introduce a flexible discount system for all new and resale flats to be offered under HOS, varying from 10% above to 10% below a base rate set for each phase;

- (b) to allow an independent quota allocation between GF and WF applicants to be fixed for each phase of the sale programme; and
- (c) to adjust the relative priority of flat selection between GF and WF applicants by revising the ratio from 3:1 to 5:1.

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File Ref. : HD(CR) 1/24/171 V
Date : 9 February 1998